



IND AS 110 – CONSOLIDATED FINANCIAL STATEMENTS

- Anand Banka

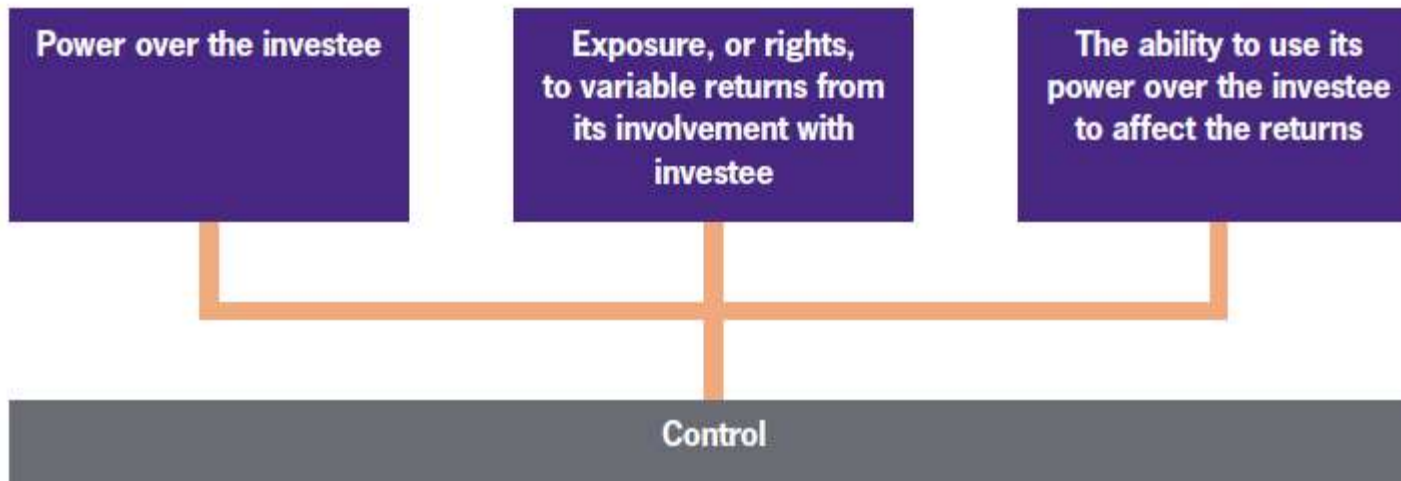
REVIEW OF INDIAN GAAP

- Mandatory only for listed entities (SEBI)
- Consolidation criteria –
 - >50% voting power, OR
 - Control of the composition of BOD
- Consolidation Procedure
 - Cost of investment vs. share of equity/ Net Assets = Goodwill/ Capital reserve
 - Minority interest in the net assets
 - Elimination of intra-group balances/ transactions/ unrealized gains
 - Line-by-line addition of all items

CONTROL

The *power* to govern the financial and operating policies of an entity so as to obtain benefits from its activities

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.



CONTROL

- Rebuttable presumption: more than half of voting power
- Control also exists if:
 - Power over more than half of the voting rights by virtue of agreement with other investors
 - Power to govern financial and operating policies under a statute or agreement
 - Power to appoint / remove majority of directors
 - Power to cast majority of votes at directors' meetings or other governing body
- Potential voting rights included
- Power over RELEVANT activities to be seen
- Includes Large Minority Shareholding

LARGE MINORITY SHAREHOLDING

More likely that investor has control of investee

Increasing size/number

Number of voting rights held by investor

Size of investor's holding of voting rights relative to other vote-holders

Number of other parties that would have to act together to outvote investor

Decreasing size/number

Less likely that investor has control of investee

LARGE MINORITY SHAREHOLDING

- ◆ Investor holds 45% of investee
- ◆ Remaining voting rights held by thousands of shareholders, none > 1%



- ◆ Investor holds 45% of investee
- ◆ Two other investors each hold 26% of the voting rights
- ◆ No other arrangements that affect decision-making



- ◆ Investor holds 35% of investee
- ◆ Three other investors each hold 8% of voting rights
- ◆ Remaining 41% widely dispersed
- ◆ No other arrangements that affect decision-making



POTENTIAL VOTING RIGHTS

○ Conditions

- **exercise price** – not at a level that prevents or deters exercise
- **timing of exercisability** – exercisable in time to affect key decisions
- **intent to exercise** – apparent expectations, motives and reasons are part of the assessment
- **financial ability** – relevant to evaluation of investor's practical ability to exercise
- **operational barriers or incentives** – relevant if investor does not have practical ability to exercise eg. due to specialist knowledge or expertise of current owner(s)

○ But only for control not accounting

CALCULATION OF GOODWILL/ NEGATIVE GOODWILL

- Refer Ind AS 103
- Compare cost of investment with the fair value of net assets
- Balance is Goodwill/ Negative Goodwill
- Goodwill to be shown as assets
- Negative goodwill to be recognised in P&L account
- **Calculation of non-controlling interest (Ind AS 103)**

CONSOLIDATION PROCEDURE

- Maintain a separate books for subsidiary for consolidation
- All assets and liabilities at business acquisition date fair value less amortization/ depreciation
- Line-by-line addition
- Elimination of intra-group transactions
- **Deferred tax on consolidation**

DEFERRED TAX ON BUSINESS COMBINATION

- Company A buys Company B for Rs. 1,500
- Book value of assets of B = 1,000
- Fair value of assets of B = 1,200
- Goodwill = $1,500 - 1,200 = 300$
- Taxable temporary difference
= $1,200 - 1,000 = 200$
- DTL = $200 * 30\% = 60$
- Goodwill = $300 + 60 = 360$



ACCOUNTING ENTRY

Goodwill A/c Dr. (200 * 30%)	60	
To DTL A/c		60

DEFERRED TAX ON CONSOLIDATION

Company X
(Holding)



Company Y
(Subsidiary)



Cost to X = 60

Sold to Y = 100

Consolidated Accounts

Stock = 100

Unrealised Gain = (40)

Net Stock = 60

Tax Base for Y = 100

ACCOUNTING ENTRY

DTA A/c Dr. (40 * 30%)	12	
To P&L A/c		12

DEFERRED TAX ON FCTR

Holding Company	
Net Assets	Rs. 7,000

Subsidiary Company	
Net Assets	\$ 50

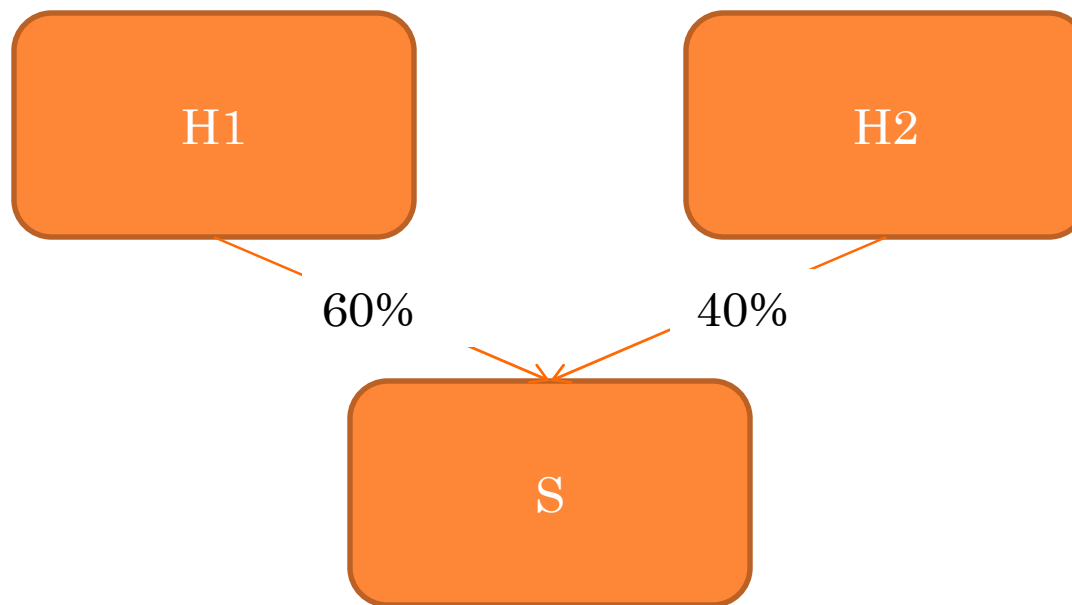
Consolidated Company	
Net Assets	Rs. 9,500
FCTR	Rs. 300

DTL on 300 @ 30% = 90

ACCOUNTING ENTRY

FCTR A/c Dr. (300 * 30%)	90	
To DTL A/c		90

ISSUE #1 SALE OF STAKE W/O LOSS OF CONTROL

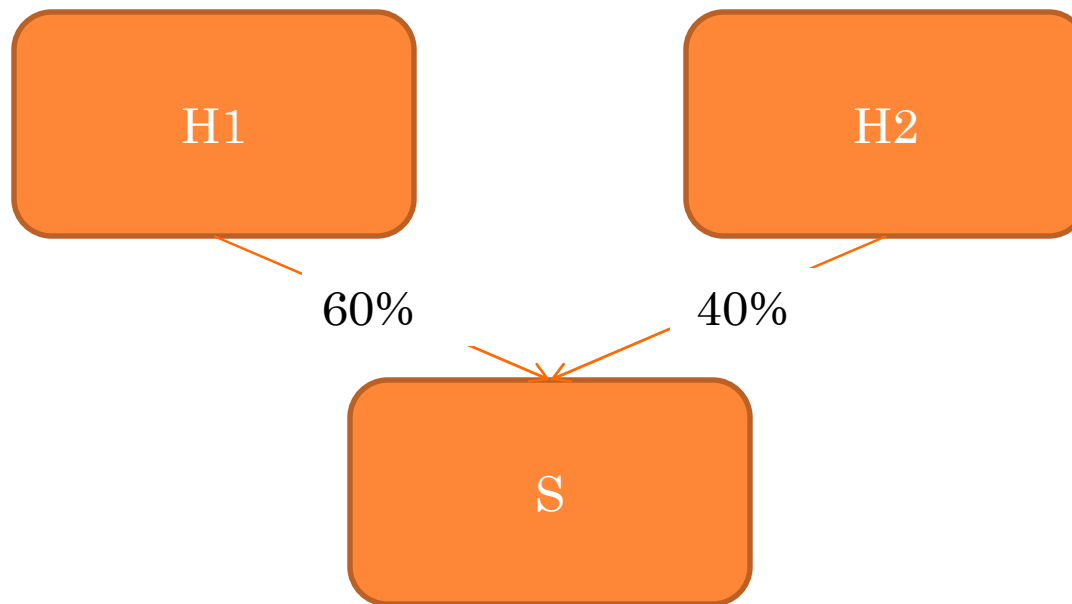


- H1 sells 9% to H2 for 50,000
- Net assets of S = 100,000
- NCI = 40% of 100,000 = 40,000

SOLUTION

Cash A/c Dr. (consideration received)	50	
To NCI A/c (100,000 * 9%)		9
To Equity – H1 (balancing figure)		41

ISSUE #2 LOSS OF CONTROL



- H1 sells 11% to H2 for 50,000 and loses control
- Net assets of S = 100,000
- NCI = 40% of 100,000 = 40,000

SOLUTION

Cash A/c Dr. (consideration received)	50	
Investment in Associate Dr. (50,000 / 11%) * 49%	222	
NCI A/c Dr. (NCI balance in Consol books)	40	
To Net assets in Sub (Net assets in Consol)		100
To P&L A/c (balancing figure)		212

SUMMARY

	Subsidiary to Subsidiary	Subsidiary to Associate
Change in level of ownership	60% - 51%	60% - 49%
Journal entries	Issue 1	Issue 2
P&L Impact	NO	YES

OTHER DIFFERENCES

- Maximum reporting gap of 3 months
- Uniform accounting policy mandatory
- NCI disclosed within Equity, separately from the owners equity

INVESTMENT ENTITY

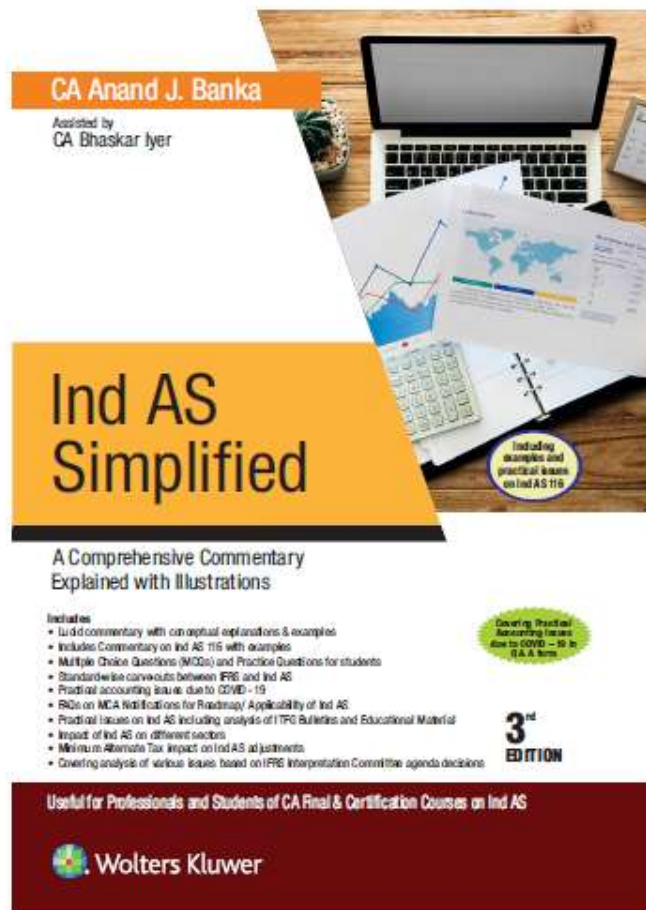
- An investment entity is an entity that:
 - obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
 - commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
 - i.e. it should also have an exit strategy
 - measures and evaluates the performance of substantially all of its investments on a fair value basis.

INDICATORS

- it has more than one investment
- it has more than one investor
- it has investors that are not related parties of the entity; and
- it has ownership interests in the form of equity or similar interests
 - It should be a separate legal entity

ACCOUNTING

- No consolidation
- FVTPL



Authored Publications	Year
Comprehensive Guide to Indian GAAP	2015
Comprehensive Guide to IND AS Implementation	2015
Ind As Simplified with illustrations, extracts and disclosure checklists	2016
Ind AS Simplified 1 st Edition	2018
Ind AS Simplified 2 nd Edition	2019
Ind AS Simplified 3 rd Edition	2020

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